

U.S. Small Business Administration
Hawaii District Office

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July 15, 2003 Issue #77

In this issue:

Modification of 7(a) Loan Collateral Policy	1
PLP Policy and Processing Requirements for SBA Form 912	2
Small Business Resource Guides	2
Lenders Join SBA in Community Outreach Walks	3
Financial Documentation Required for LowDoc Files	3
New IRS Contact Information	3
SBA Lender Quick Links	4
Navigating SOP 50-10	4
Electronic Processing of SBAExpress Loans	5
SBA Launches Redesigned Website	5
SBA Makes \$1.4 Billion More Available	5
Community Express: A New Source for Small Business Loans	6
Upcoming Events	6
Hawaii District Office Loan Activity	7
Lending Officer of the Year Awards Program	8-9

For More Information

- SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under "U.S. Government" in your telephone directory, or call the SBA Answer Desk.
- SBA Answer Desk:
1-800 U ASK SBA
- Fax: 202-205-7064
- E-mail: answerdesk@sba.gov
- TDD: 704-344-6640
- Your rights to regulatory fairness:
1-800-REG-FAIR
- SBA Home Page: www.sba.gov

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

MODIFICATION OF 7(A) LOAN COLLATERAL POLICY

The SBA is a cash flow lender and does not routinely apply loan-to-value criteria in deciding whether to approve or decline loan guaranty requests. However, under provisions of the Small Business Act, the lender must ensure that the borrower has pledged adequate collateral, both business and personal, to protect the interests of the Government. Primary collateral is generally considered to be the existing business assets and/or assets financed with the SBA loan. To the extent that secondary collateral is necessary, the lender/SBA loan processor must determine how much additional collateral is needed to fully secure the loan.

A loan is considered "fully secured" if SBA has security interests in assets with a combined "collateral value" at the time of the loan application that equals the loan approval amount. (See "collateral value" definition below.) To restate, when a 100 percent Loan-to-Value (LTV) ratio is reached, additional collateral is not necessary and the loan is considered "fully secured." The lender/SBA may, however, take such additional collateral as it determines necessary for a particular loan.

The calculation of the LTV ratio must be based on "collateral value" and not market value. The "collateral value" of an asset must be determined by estimating the amount expected to be realized if the lender took possession after a loan default and sold the asset after conducting a reasonable search for a buyer. The lender must also deduct the estimated costs of taking possession, preserving and marketing the asset, less the value of any claims against the asset including superior liens to determine the collateral value. Many lenders call this a "liquidation value." The lender must document in the loan file the policy and procedures it uses.

For a complete explanation of this policy modification, please refer to SBA Policy Notice 5000-872 dated June 12, 2003.

PLP POLICY AND PROCESSING REQUIREMENTS FOR SBA FORM 912

Revised Policy:

A loan may now be processed using PLP procedures when any “Character Question” on an SBA Form 912, Statement of Personal History, is answered “Yes” provided the 912 has been cleared by the SBA District or Branch office prior to submission to the PLP Processing Center.

New Policy Language:

Replace the language on page 342 of SOP 50 10, Subpart D, Chapter 3, “*Preferred Lenders Program*”, paragraph 7.a. (4)(e) with the following:

SBA Form 912. An application for guaranty involving an affirmative response to any “Character Question” (question 6, 7, or 8) on SBA Form 912, the Statement of Personal History, may be processed using PLP Procedures after the lender has requested and received written clearance of the character issue(s) from the district or branch office serving the territory where the business applicant is located.

To request clearance, the lender must submit a brief description of the business along with SBA Form 912 and required attachments including fingerprint cards if there was a felony or if requested by the district/branch office. When providing clearance, the district/branch office will send the lender a letter titled “Character Clearance Letter for PLP Loan Applications.” The lender must attach a copy of the clearance letter to the individual’s 912 and place it in the applicant’s file.

See SBA Policy Notice 5000-877 issued June 30, 2003 for more details. Should you have any questions, please call Kimberly Hite at 541-3024, Lyn Womack at 541-2948 or Jerry M. Hirata at 541-2969.

SBA LENDER’S TRAINING

7(a) Guaranty Loan Program
Prince Kuhio Federal Building – Room 5-208
August 6, 2003 - Wednesday
8:00am - 12:30pm
Contact: Ms. Arlene Orsino 541-2988

7(a) Guaranty Loan Program: Eligibility, Credit Underwriting, Fees and Interest Rates

Special Loan Programs: Caplines, Export Working Capital Program, 504 Loan Program—HEDCO LDC, Micro Loan Program

Miscellaneous Topics: SBA Application Package, Environmental, Occupancy, Alien Applicants, Criminal History

Loan Closing

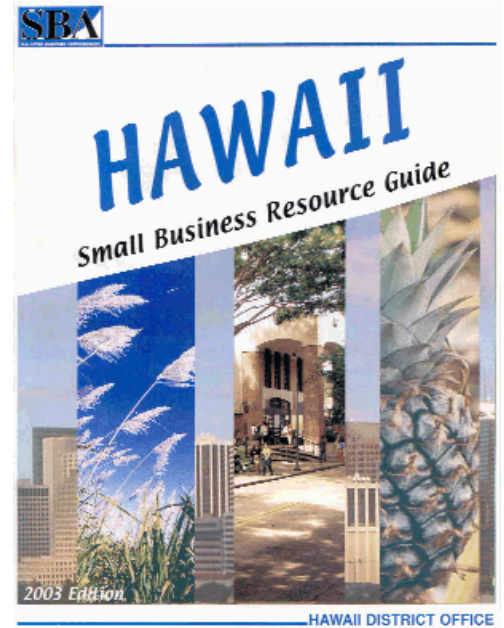
Loan Servicing/Liquidation

Parking:

Restaurant Row Early Bird Parking until 9:00 AM - \$6.00

District Parking Lot (Corner of Halekauwila and Pohukaina Streets) - \$4.00

SMALL BUSINESS RESOURCE GUIDES



The Hawaii District Office has received a supply of the 2003 Edition of the Small Business Resource Guide. The Resource Guide is an information source designed for entrepreneurs and small business owners in Hawaii and the Pacific Region. Contents of the Resource Guide include: How to Start a Business; Explanation of Federal, State, and Local Regulations; Financing Options; Sources of Technical Assistance; and Government Contracting information. The Resource Guide is a great educational and reference tool that Lenders can give to their customers who are thinking of starting or expanding a business. To request a supply of the 2003 Small Business Resource Guide, you may contact any of the following SBA staff:

Lyn Womack – Lyn.Womack@sba.gov

Kimberly Hite – Kimberly.Hite@sba.gov

Jerry Hirata – Jerry.Hirata@sba.gov

LENDERS JOIN SBA IN COMMUNITY OUTREACH WALKS

In an effort to inform more small businesses about SBA's financing and assistance programs, SBA staff members have been taking to the streets – walking door to door visiting small businesses on Oahu. This direct marketing effort, called Community Outreach Walks, is intended to make business owners aware of the variety of assistance available to them through SBA's programs.

Recently, representatives from two Hawaii-based lenders, Central Pacific Bank and Bank of Hawaii, joined SBA on two Community Outreach Walks – one in Kaimuki and Moiliili, and one in Kapolei. Feedback from the lenders regarding these joint efforts has been positive.

If you are interested in participating in a Community Outreach Walk, please contact Jerry Hirata at 541-2969.

AUDIT ISSUE:

WHAT FINANCIAL DOCUMENTATION ARE LENDERS REQUIRED TO HAVE IN FILE FOR A LOWDOC LOAN?

Lenders are required to analyze and document LowDoc loans in a manner consistent with prudent lending practices. Lenders are required to have at least the same documentation they would have for similar in-house loans that are not SBA loans.

For an existing business, the LowDoc Center requires that lenders submit a balance sheet that is current within 90 days of submitting the application and a profit and loss statement for the previous completed fiscal year. If the previous fiscal year statement is over 90 days old, an interim statement dated within the previous 90 days is required. Copies of these should be retained in the lender's file.

For a start-up business or a business purchase, the LowDoc Center requires a pro forma balance sheet as of the opening day and a pro forma income statement for the first 12 months of operations. If repayment ability is marginal based on the projection for the first year, a pro forma income statement for the second year should be provided. Copies of these should be retained in the lender's file.

The LowDoc Center does not want copies of tax returns, business plans, internal credit memorandums, etc. Those documents should be retained in the lender's file. **However, the Lender should retain all pertinent information which was used to make the credit and eligibility determinations in the case file, for any possible use by SBA for audit or guaranty purchase activities.**

UPDATED INTERNAL REVENUE SERVICE (IRS) CONTACT INFORMATION

IRS contact information has changed since the last Lenders Quarterly edition. Use the following updated contact points and telephone numbers to request copies of IRS tax transcripts to verify business financial information included in SBA loan applications.

IRS Service Center in Fresno:

1950G Street
Fresno, CA 93888

	<u>Phone</u>	<u>Fax</u>
Linda Wade	559-253-4956	559-253-4990
Alicia Bradshaw	559-253-4961	559-253-4991

SBA LENDER QUICK LINKS

SBA Loan Programs

LowDoc: <http://www.sba.gov/financing/lendinvest/lowdoc.html>
Express: <http://www.sba.gov/financing/lendinvest/sbaexpress.html>
PLP: <http://www.sba.gov/financing/lendinvest/plp.html>

Loan Processing Support

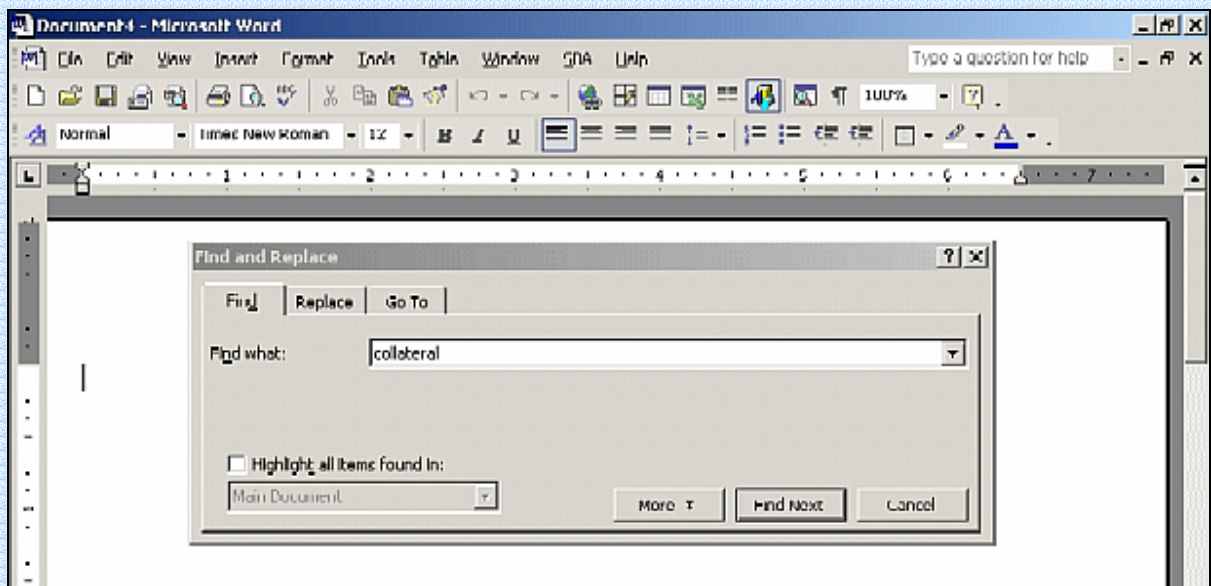
Forms: <http://www.sba.gov/library/forms.html>
SOP 50-10: <http://www.sba.gov/library/soproom.html>
Franchise Registry: <http://www.franchiseregistry.com/Registry/>
Lender Training Manual: <http://www.sba.gov/fl/north/nflendersmanual.html>
SBA Size Standards: <http://www.sba.gov/library/cfrs/13cfr121.pdf>
SBA Notices: <http://www.sba.gov/banking/indexnotices.html>

NAVIGATING SOP 50-10

SBA's lending partners know that there's an 800 page SOP 50-10. They also know that SOP 50-10 has the answers to many questions that come up when making an SBA-guaranteed loan. The lending partners each have a copy of the 800 page document. So, when a lender has an SBA question, does he/she reach for the SOP? More often than not, and understandably, the answer is no. Lenders find calling SBA the easiest way to resolve a question.

One of the major complaints about the SOP, other than the behemoth volume of paper and the "regulationese" style of writing, is that it is difficult to find specific topics. Because the SOP is so large, and there have been continual revisions and policy updates, looking up the answer to a question can be time-consuming and aggravating.

Fortunately, there is a way you can rid yourself of your dusty copy of the SOP and independently find answers to your questions. By accessing SOP 50-10 from the Online Library on SBA's website (<http://www.sba.gov/library/soproom.html>), you can download the SOP and all of its updates and revisions. If you download and open SOP 50-10 in Word format, you can use the Find function to locate all references to your topic in the SOP. With SOP 50-10 opened in Word, simply go to "Edit", then choose "Find". The following pop-up box will appear.



Type the topic that you're researching in the "Find What" space and click on "Find Next". Keep clicking "Find Next" until you find the sections that you need.

ELECTRONIC PROCESSING OF SBAEXPRESS LOANS

To streamline the SBAExpress loan product, the Agency is beginning to accept electronic transmission of SBAExpress loans from a limited number of lenders.

This initiative is expected to significantly expedite and reduce the cost of processing SBAExpress loans for the Agency and for its lending partners. Eventually all SBAExpress loans will be transmitted to the SBA electronically. The first phase of this initiative, which is available immediately, allows selected lenders to process SBAExpress loans electronically via a web application. SBAExpress lenders interested in taking advantage of this feature should contact Stephen Kucharski at 202-205-7551 for additional information.

Phase two of electronic loan processing will allow selected lenders to directly transfer SBAExpress loan files to the Agency, which will eliminate any dual entry of SBAExpress data. While phase two is also available immediately, it is contingent on lenders and/or their SBA origination software vendors incorporating SBAExpress electronic processing requirements into their proprietary software systems. Several software vendors have begun incorporating those requirements into their software, and some lenders have also initiated software revisions. Other lenders interested in developing this functionality should also contact Stephen Kucharski.

SBA LAUNCHES REDESIGNED WEB SITE WITH MORE RESOURCES TO HELP ENTREPRENEURS

The SBA has launched an extensively enhanced Web site designed to make it easier for small business owners and other users to access a wealth of agency resources.

The re-engineered site, at www.sba.gov, underwent widespread cosmetic and structural changes, as well as revisions of content. The changes not only will make navigation easier and more logical, but will give small business users access to a compelling interactive resource for the development and growth of their businesses.

SBA MAKES \$1.4 BILLION MORE AVAILABLE FOR SMALL BUSINESS LENDING

The SBA announced on June 3, 2003 that \$1.4 billion in additional loan authority will be made available for small business lending for fiscal year 2003. As a result, lending authority in the agency's primary business loan program, 7(a), will increase to almost \$11.0 billion.

"Hundreds of small business owners and entrepreneurs looking to start a business will benefit from this new loan authority," said SBA Administrator Hector V. Barreto. "The SBA is already underwriting a record number of loans in this, its 50th year, and this new loan authority will add to our capacity to help small businesses."

The new loan authority will be made available by applying a new 7(a) econometric subsidy model to the STAR program for FY 2003. The STAR, or Supplemental Terrorist Activity Relief, program was established to assist small businesses affected by the terrorist attacks of Sept. 11, 2001, and was in effect through January 11, 2003. From October 1, 2002 through January 11, 2003, \$1.663 billion in STAR loans were made.

By applying the new model to the STAR program, the estimated cost of the program declines dramatically. This frees up \$12.3 million that will now be transferred to the 7(a) program to make loans to small businesses. Since January, some loans approved through the STAR program have been cancelled, allowing the SBA to transfer about \$2.8 million in additional funds to the 7(a) program. Together, these transfers support approximately \$1.449 billion in additional 7(a) loans.

COMMUNITY EXPRESS: A NEW SOURCE FOR SMALL BUSINESS LOANS

Community *Express* is a pilot SBA loan program created to help boost economic development and job creation by providing loans and technical assistance to small businesses from underserved segments of Hawaii's small business community.

The SBA views management and technical assistance as a critical component to the development, growth, and success of the potential borrower. This program is structured to ensure that borrowers receive appropriate pre-loan and post-loan closing management and technical assistance.

To be eligible for a Community *Express* loan, the current or prospective small business must be located in a low and moderate income area or be a woman-owned, veteran-owned or minority-owned business.

Loans are made by a participating lender and receive an 85% guarantee from the SBA. **Qualified small business owners may receive loans in increments of \$5,000.00, \$10,000.00 or \$15,000.00 with a 7-year term.** There is no pre-payment penalty, and the application requires minimal paperwork. Loan proceeds must be used exclusively for business related purposes including start-up, expansion, equipment purchases, working capital, inventory or real estate transactions. The owners, partners and/or principals must be of good character.

The Hawai'i Small Business Development Center Network, the Hawai'i Women's Business Center, the Samoan Service Providers Association, and Pacific Gateway Center provide the technical assistance component of this important program and act as intermediaries for the participating lender, Innovative Bank. **Currently, Innovative Bank (based in Oakland, CA) is the only Community *Express* participating lender in Hawaii.**

For more details about the SBA Community *Express* program and application information, contact the Hawai'i Small Business Development Center Network at 522-8131, the Hawai'i Women's Business Center at 522-8136, the Samoan Service Providers Association at 842-0218, or Pacific Gateway Center at 852-6100.

UPCOMING EVENTS

OAHU

July 16, 2003

8(a) APPLICATION WORKSHOP

Contact: Joyce Tamayose, SBA, 541-2966

July 24, 2003

HOME OFFICE DEDUCTIONS FOR SMALL BUSINESS

Small Business Development Center 522-8131

July 29, 2003

DoD HAWAII SMALL BUSINESS OUTLOOK FORUM

Honolulu Country Club

August 4, 5, 6, & 7, 2003

NX LEVEL TRAINING

Small Business Development Center 522-8131

August 6, 2003

SBA LENDER TRAINING

Contact: Arlene Orsino, SBA, 541-2988

August 12, 2003

STATE & FEDERAL TAX PROCEDURES FOR SMALL BUSINESS

Hawaii Women's Business Center 522-8136

August 14, 2003

STATE TAXES FOR SMALL BUSINES

Small Business Development Center 522-8131

August 22, 2003

MICRO ENTERPRISE 101

Contact: David Brown, SBA, 541-2986

October 20, 2003

504 TRAINING

TBD

SBA Hawaii District Office
Loan Activity, FY 2003
 Nine Months Ended 6/30/03

Bank	No. of Loans	Loan Amount (000's) Gross	SBA
First Hawaiian Bank/Bank of the West	36	5746.2	3410.7
Bank of Hawaii	20	3272.0	2215.9
American Savings Bank	19	1905.0	1538.2
Innovative Bank	14	102.0	84.7
Citizens Security Bank	11	1093.9	849.7
Hawaii National Bank	10	2905.0	1689.2
City Bank	10	1600.1	1280.2
Central Pacific Bank	5	662.0	524.6
Business Loan Center Inc	1	675.0	506.2
Bank of Guam	1	50.0	42.5
BankPacific, Ltd.	1	50.0	42.5
Total 7(a) Loans	128	18061.2	12184.4
HEDCO 504 Loans	26	12703.0	12703.0
Lokahi Pacific 504 Loans	1	1086.0	1086.0
MicroLoans	5	27.5	27.5
Grand Total	160	31877.7	26000.9

NUMBER OF LOANS BY COUNTY & GUAM

	Oahu	Hawaii	Maui	Kauai	Guam	Total
First Hawaiian Bank/Bank of the West	20	8	1	4	3	36
Bank of Hawaii	6	5	5	2	2	20
American Savings Bank	18		1			19
Innovative Bank	8	2	1	3		14
Citizens Security Bank					11	11
Hawaii National Bank	9	1				10
City Bank	6	1	3			10
Central Pacific Bank	5					5
Business Loan Center Inc	1					1
Bank of Guam					1	1
BankPacific, Ltd.					1	1
Total 7(a) Loans	73	17	11	9	18	128
Total 504 Loans	21	1	3	1	1	27
MicroLoans	5					5
Grand Total	99	18	14	10	19	160

LENDING OFFICER OF THE YEAR AWARDS PROGRAM

OAHU

Lending Officer	Bank	Branch	# Loans	Points = # Loans X 2	Bonus Points				Pts. + Bonus Pts.
					Women	Veteran	Capline	IT/EWCP	
Dickinson, John	ASB	Main	11	22	3	3			28
Nakagawa, Ray	ASB	Main	8	16	3				19
Kihe, Demaney	HNB	Airport	4	8					8
McLean, Ann	FHB	Kailua	3	6	2				8
Maglaya, Susan	CB	Main	3	6	1				7
Masuno, Naomi	CPB	Kaimuki	2	4	2		1		7
Chang, Ronald	FHB	Kapiolani	3	6					6
Kaneko, Steven	BOH	Kaimuki	2	4		2			6
Sokolowski, Greg	CB	Main	2	4		1			5
Ventura, Jeff	FHB	Ward	2	4	1				5
Comes, Steven	FHB	Makiki	1	2		1	1		4
Nishimura, Eugene	HNB	Main	1	2	1		1		4
Reyes, Melvic	HNB	Makiki	2	4					4
Au, Randy	BOH	Waipahu	1	2		1			3
Chang, Paula	FHB	Main	1	2		1			3
Fujinaka, Keene	BOH	Pearlridge	1	2		1			3
Kam, Katherine	FHB	Pearlridge	1	2	1				3
Kurosawa, Scott	CPB	Pearlridge	1	2			1		3
Ledingham, Gordon	BLC	Main	1	2	1				3
Murakami, Diane	BOH	Waialae-Kahala	1	2	1				3
Camacho, Martha	FHB	Kaimuki	1	2					2
Crisostomo, Mario	HNB	Pearl City	1	2					2
Grace, Garrett	CPB	Main	1	2					2
Ing, Josie	FHB	Hickam	1	2					2
Lee, Martha	FHB	University	1	2					2
Leung, Paul	HNB	Main	1	2					2
Lu, Randy	CB	Main	1	2					2
McKillop, Bill	CB	Main	1	2					2
Matsumoto, Patrick	BOH	Ala Moana	1	2					2
Mendonsa, Gareth	FHB	Moanalua	1	2					2
Pak, Chong	CPB	Mapunapuna	1	2					2
Suehiro, Wayne	FHB	Moanalua	1	2					2
Takahashi, Craig	FHB	University	1	2					2
Wong, Kendall	FHB	Kaneohe Bay	1	2					2
Zheng, Janice	FHB	Main	1	2					2

Nine Months Ended 6/30/03

LENDING OFFICER OF THE YEAR AWARDS PROGRAM (CONT'D)

NEIGHBOR ISLANDS

Lending Officer	Bank	Branch	# Loans	Points = # Loans X 2	Bonus Points				Pts. + Bonus Pts.
					Women	Veteran	Capline	IT/EWCP	
Kauai									
Murata, Jeff	FHB	Lihue	3	6	2				8
Mayfield, James	BOH	Lihue	2	4					4
Vidinha, Joyce	FHB	Lihue	1	2					2
Maui									
Yoshida, Kevin	CB	Kahului	3	6					6
Feliciano, Lolita	BOH	Kahului	1	2		1			3
Peterson, Bard	FHB	Kahului	1	2	1				3
Baker, Sue	BOH	Kahului	1	2					2
Domay, Nicole	BOH	Kihei	1	2					2
Lum, Davin	BOH	Lahaina	1	2					2
Nishimoto, Mitchell	FHB	Kahului	1	2					2
Santander, Alvin	BOH	Wailuku	1	2					2
East Hawaii									
Grugier, Elina	FHB	Hilo	2	4					4
Honma, Dave	FHB	Hilo	2	4					4
Kang, Calvin	BOH	Waiakea	2	4					4
Kouchi, Don	FHB	Hilo	1	2	1				3
Ideue, Keith	HNB	Hilo	1	2					2
Nishida, Lois	BOH	Hilo	1	2					2
West Hawaii									
Imada, Clyde	FHB	Waikoloa	2	4					4
Dermengian, Christie	BOH	Kailua-Kona	1	2					2
Jones, Alison	BOH	Kailua-Kona	1	2					2
Morimoto, Reggie	FHB	Kailua-Kona	1	2					2

Nine Months Ended 6/30/03

